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SUBJECT: PHILIPPINES: 2008 REPORT PURSUANT TO THE INTERNATIONAL
ANTICORRUPTION AND GOOD GOVERNANCE ACT

REF: STATE 18836

¶1. (U) Per reftel request, this cable includes Post's input for the 2008 International Anticorruption and Good Governance Act (IAGGA) Report to Congress, detailing Philippine anticorruption efforts since 2006 and U.S. Government-funded programs to support these efforts.

Philippine Government Efforts to Fight Corruption

¶2. (U) While corruption remains a central challenge to good governance in the Philippines, the Philippine government has made significant efforts to improve transparency and combat corruption at all levels. Central to the government's anticorruption efforts is the Office of the Ombudsman, the independent agency that investigates and prosecutes corruption cases in the public sector. Starting from a low six percent conviction rate in 2002, the Ombudsman succeeded in raising the conviction rate in public corruption cases to 19 percent in 2006 (35 convictions out of 188 cases) and 55 percent in 2007 (94 convictions out of 171 cases). The Ombudsman's prosecution of former president Joseph Estrada for plunder and the Anti-Graft Court's unprecedented conviction and 40-year sentence in October 2007 was the most significant of these cases, highlighting that the Ombudsman's reach extends to the highest levels. While Estrada was pardoned, he was required to forfeit bank accounts and property amassed illegally during his two-year tenure, as decreed by the Anti-Graft Court.

¶3. (U) Notwithstanding this progress, the efforts of the Ombudsman and the Anti-Graft Court are hampered by many institutional challenges. Investigations are hindered by Philippine banking secrecy laws that limit access to certain crucial financial information, and by poor protection for would-be whistleblowers. The high caseload and the general practice in Philippine courts to try cases on a piecemeal basis combine to make trials at the Anti-Graft Court last an average of six to seven years from filing to promulgation of decisions. While delay remains a significant problem, the Anti-Graft Court has taken steps to address the issue by improving case management and making several important procedural changes, most notably the move to continuous trials. The Anti-Graft Court also established a mediation process to trim its caseload and successfully mediated 256 cases in 2007.

¶4. (U) The Department of Finance, Bureau of Internal Revenue, and the Bureau of Customs have also taken significant steps to strengthen their anticorruption mechanisms. The Revenue Integrity Protection Service (RIPS) detects, investigates, and prevents corruption in the revenue generating agencies of government under the Department of Finance. Its recent successes include the filing of 27 graft cases in 2006 and 37 in 2007, compared to 18 cases in ¶2005. To date, 25 officials of the Bureau of Internal Revenue or Bureau of Customs have been suspended by the Ombudsman under the program. Six Bureau of Customs officials were suspended for alleged smuggling of 16 luxury vehicles and cases were filed against two

Customs officials for the illegal release of another 14 high-end luxury vehicles at the Subic Bay Freeport Economic Zone.

15. (U) The Run After the Tax Evaders (RATE) Program, created by the Bureau of Internal Revenue in 2005, pursues tax evaders and those involved in facilitating tax evasion. According to a National Tax Research Center study covering the period 2001 to 2005, an average of P35.74 billion (\$893.5 million) in potential revenues was lost each year because of individual tax evasion. From the time the program began in 2005, some 87 RATE cases have been filed with the Philippine Department of Justice. The Program achieved a 19 percent increase in corporate tax return filers in 2007 and a 5.8 percent increase in individual taxpayer returns.

16. (U) The Run After the Smugglers (RATS) Program, established by the Bureau of Customs in July 2005 and formally launched in 2006, is mandated to detect and prosecute smugglers and other customs and tariff law violators. Thru December 2007, 60 cases have been filed with the Philippine Department of Justice. Some 11 high-value cases were filed with the Court of Tax Appeals. To further help prevent smuggling, the Bureau of Customs also took the initial steps to shift all operations to "paperless" transactions.

17. (U) Other notable accomplishments of the government include the November 2006 ratification of the UN Convention on Anti-Corruption and the June 2007 signing of the Anti-Red Tape Act, a law designed to significantly reduce transaction times for government procedures and to provide stiffer penalties to those employees who engage in corrupt practices. In November 2007, President Gloria Macapagal Arroyo established the Procurement Transparency Board to increase civil society oversight of government procurement activities.

U.S. Government-Funded Programs

18. (U) The Chief of Mission and senior U.S. officials used every appropriate opportunity, publicly and privately, to highlight the negative effects of corruption on economic growth and political stability, while development assistance supported both Philippine government and civil society partners to develop the policies and tools necessary for a transparent democratic system. In July 2006, the Millennium Challenge Corporation through its Millennium Challenge Account (MCA) Threshold Program provided a \$21 million grant to the Philippine government to strengthen and institutionalize its anticorruption programs. The Philippines contributed counterpart funding of P1 billion (\$25 million) to the project.

19. (U) Law Enforcement and Legal Systems: In 2006 and 2007, the U.S. provided training to approximately 2,000 government officials on anticorruption procedures and mechanisms. U.S. assistance helped the Anti-Graft Court develop a computerized case management information system, making it easier to track cases and identify those that are overdue. U.S. efforts also enabled the Anti-Graft Court to conduct continuous trials, permitting judges to gauge the reliability of witnesses and rule effectively. With the prospect of dilatory tactics eliminated, the accused in almost half of over 50 pilot cases selected for continuous trial opted to enter plea agreements, effectively concluding their cases. U.S. assistance helped improve the abilities of staff of the Office of the Ombudsman to investigate and prosecute corruption cases through training in substantive law, investigation and prosecution skills, legal writing and research, and case preparation. The U.S. also supported assessments of selected government agencies for vulnerability to corruption and provided direct training and support to improve the capacities of the Office of the Ombudsman, the Bureau of Internal Revenue, and the Bureau of Customs. The U.S. also provided advisory assistance to the Philippine Anti-Money Laundering Council, which is investigating seven corruption cases involving P1.4 billion (\$35 million).

110. (U) Transparent Governance: The U.S. provided technical assistance to improve the efficiency and transparency in government procedures at both local and national levels, including business registration and permit issuance, tax collection, and budget and procurement procedures. U.S. programs continued to strengthen procedures and internal controls among the revenue-generating agencies of the Philippine government. The U.S. continued to

support the automation of the personnel and management systems for the 11,000 employees of the Bureau of Internal Revenue. U.S. programs helped the Office of the Ombudsman and the Supreme Court to detect vulnerabilities to corruption; and to design and implement systems and safeguards to prevent corruption in public sector agencies.

¶11. (U) Civil Society: The U.S. also engaged civil society in the fight against corruption by supporting the Multi-Sectoral Anti-Corruption Council and various focus groups that act as watchdogs to prevent corruption in government. The U.S. provided assistance the Transparency and Accountability Network, a coalition of 25 civil society organizations concerned with anticorruption and good governance. The U.S. also funded a broad coalition of civil society organizations to monitor the formulation and use of the national budget. With assistance from the U.S., the Office of the Ombudsman distributed teaching guides on graft and corruption prevention to all the elementary and secondary teachers in 44,000 public schools nationwide to instill civic awareness, ethics and integrity among public school students and teachers.

KENNEY